



## **OXFORD ANALYTICA**

# **PHILIPPINES MONETARY TRANSPARENCY**

**Country Report 2005**

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# PHILIPPINES



## COMPLIANCE RATINGS

| <i>Monetary transparency</i> | 2005        | 2004        | 2003        | 2002        |
|------------------------------|-------------|-------------|-------------|-------------|
| Clarity of roles             | ••••        | ••••        | ••••        | ••••        |
| Open decision process        | ••••        | ••••        | ••••        | •••         |
| Availability of information  | ••••        | ••••        | ••••        | ••••        |
| Central bank accountability  | ••••        | ••••        | •••         | •••         |
| <b>Score</b>                 | <b>4.00</b> | <b>4.00</b> | <b>3.75</b> | <b>3.50</b> |

## OUTLOOK & COMMENTARY

President Gloria Macapagal-Arroyo appointed Amando Tetangco, Jr. as the successor to Rafael Buenaventura as governor of the Central Bank of the Philippines (BSP), with effect from July 2005. The central bank has continued to maintain its efforts to increase transparency according to the IMF Monetary and Financial Statistics Manual. The BSP observes the IMF Special Data Dissemination Standard (SDDS) for monetary data within its responsibilities, and produces a comprehensive range of information on monetary policy and overall macroeconomic conditions.

Expectations were raised last year regarding the passage of a bill that would strengthen the supervisory powers of the central bank. However, this bill has not been passed as yet, and despite being described as urgent by the BSP, it has not seen as much support as expected.

## EXECUTIVE SUMMARY

### 4.00 Compliance in progress

The Central Bank of the Philippines (BSP) has furthered its commitment to increasing monetary policy transparency over the past year. The BSP observes the IMF Special Data Dissemination Standard (SDDS) for monetary data within its responsibilities, and produces a comprehensive range of information on monetary policy and overall macroeconomic conditions. The BSP website is regularly updated with information on monetary policy decisions. When the BSP raised its policy interest rates three times this year, the Monetary Board maintained high levels of disclosure concerning macroeconomic assumptions to justify the changes to policy.

The BSP's operational autonomy has remained strong. The new governor of the central bank, Amando Tetango Jr, was appointed in July 2005, and is expected to maintain the BSP's level of de facto independence from the government. Nevertheless, the legislation that was expected to strengthen the supervisory powers of the central bank has not yet been enacted by Congress. Although the BSP has stressed the bill's importance in an effort to speed up the legislative process, there has been relatively little response.

The drafting of a new law on payments system is expected to strengthen the BSP's authority to administer this area. The proposed bill includes provisions to codify the rights and obligations of parties. Overall, developments in monetary transparency in the Philippines are ongoing, but no major progress has been made over the past year.

The Philippines' overall score is unchanged from last year.

## 1. CLARITY OF ROLES, RESPONSIBILITIES AND OBJECTIVES OF CENTRAL BANKS

●●●● Compliance in progress

### The objectives and institutional framework of monetary policy

#### Central bank objectives and responsibilities

The New Central Bank Act of 1993 (NCBA) regulates the activities of the Central Bank of the Republic of the Philippines -- Bangko Sentral ng Pilipinas (BSP). The act establishes the BSP as an independent monetary authority and mandates it to maintain stability of prices conducive to balanced and sustainable economic growth, while aiming also to promote monetary stability and the convertibility of the Philippine currency. The BSP is responsible for the formulation and implementation of policy in the areas of money, exchange rate, banking, and credit, as well as the supervision and regulation of banks, financial institutions, and quasi-banks. The NCBA empowers the BSP to acquire any assets and incur any liabilities that are necessary to attain its policy objectives.<sup>1</sup>

In 1993, the restructuring of the old Central Bank of the Philippines (CBP) into the BSP was made necessary by the CBP's accumulation of around 308 billion pesos in liabilities, as a result of undertaking quasi-fiscal operations on behalf of the government.<sup>2</sup> Under the NCBA, the BSP is granted increased fiscal and administrative autonomy from the central government.<sup>3</sup> As a result, it has largely ceased to engage in quasi-fiscal activities.

A proposed bill has long awaited approval by Congress, in order to strengthen the supervisory powers of the BSP. The amendments would not modify the underlying objectives or key institutional framework set out by the NCBA. The bill is certified as urgent by the BSP, albeit not by the President of the Philippines, and its second reading is pending in the Senate. The House of Representatives has yet to include the proposed bill in its agenda. The draft bill includes: a provision authorising the BSP to examine and sanction subsidiaries and affiliates of banks; a provision giving authority to the Monetary Board to prescribe guidelines for the examination of supervised entities, and giving authority to the BSP to monitor more closely the operations of trust entities and non-stock savings and loan association; a provision enhancing supervisory standards including clearer definitions of stockholders' "control" over banks, waiver of deposit secrecy laws for directors, officers, stockholders and related interests (DOSRI), and defining periods when banks may be subject to examination; a stronger provision on receivership, prescribing additional transparent grounds for bank closure; and a provision to improve the capability and efficiency of the BSP through a reorganisation of the present system.<sup>4</sup> In addition, the bill also seeks to introduce the following amendments: (1) to include oversight power of the payments system, and (2) to require prior BSP approval for transfers and acquisition of shares sufficient to elect at least one seat in the board of directors or to effect a change in the majority ownership or control of the relevant institution.<sup>5</sup>

Another bill currently being drafted, and with the temporary name of 'Payment and Systems Law', is intended to integrate and clarify all laws on payment systems. This law will strengthen the BSP's authority to administer the payment system.<sup>6</sup>

#### Operational autonomy

The NCBA made the BSP formally independent. The government does not have the legal authority to override central bank decisions -- it can only apply informal pressure.<sup>7</sup> Board members are appointed by the president of the Philippines and may be dismissed by the president if they are guilty of fraudulent or illegal behaviour, or become

unfit to hold office.<sup>8</sup> This clause is clearly spelled out.<sup>9</sup> There have been no board dismissals since the NCBA took effect.

The BSP's operational autonomy has remained strong. Fiscal constraints over the past few years have not led to government pressure on the central bank's monetary policy settings.

## **Institutional relationship between monetary and fiscal operations**

### **Lending to government**

The BSP does not regularly extend credit to the government, but is permitted to buy and sell government securities in the secondary market in connection with its open market operations. The purchase and sale of such debt securities may be made outright or using repurchase agreements. The BSP may also issue, buy, and sell its own securities in cases of extraordinary movements in price levels.<sup>10</sup>

The BSP is permitted to make direct provisional advances (with or without interest) to the national government to finance authorised expenditures in the annual budget, provided that such advances are repaid within three months. Such advances would be renewable for another three months but may not, in aggregate, exceed twenty percent of the average annual income of the borrower for the last three years. Since the establishment of the BSP, no such advances have been made.<sup>11</sup>

Details of the BSP's loans to the government, as well as government deposits with the central bank, are listed on its monthly balance sheet. This is available on the BSP's website within two months of the end of each month. The data is presented on a consolidated basis and contains no information on the interest rate or repayment period of the BSP's loans to the government.<sup>12</sup>

### **Central bank involvement in the rest of economy**

The BSP's involvement in the rest of the economy is clearly proscribed by the NCBA. The central bank cannot acquire shares or participate in the ownership or management of any firm, whether directly or indirectly.<sup>13</sup> In addition, employees are forbidden from concurrent employment in any institution subject to supervision or examination by the BSP. Members of the Monetary Board are not permitted to hold any other public office or public employment during their period of tenure. Individuals connected with multilateral banking institutions or with a stake in Philippine private banks cannot be appointed to the Monetary Board for one year after renouncing their external interests. Likewise, members of the Board cannot be employed by private or multilateral banking institutions for two years after the termination of their Board membership.<sup>14</sup>

### **Central bank profit allocation**

The NCBA requires the BSP to calculate its net profits/losses on a monthly basis. In the calculation of net profits, the BSP is obliged to make adequate reserves for bad and doubtful accounts. Within sixty days of the end of each fiscal year, the BSP is required to place 75 per cent of its net profits into a special deposit account (sinking fund) to guarantee all net liabilities of the central bank. Of the remaining profits, 50 percent are transferred to the National Treasury and 50 percent are retained by the BSP. Any losses arising from revaluation of the BSP's net assets or liabilities in gold or foreign currencies with respect to the Philippine peso are not included in the computation of the annual profits and losses of the BSP but are carried in a special frozen account in the BSP General Balance Sheet under the 'Revaluation of International Reserves' account.<sup>15</sup>

## **Agency roles performed by the central bank on behalf of the government**

The central bank performs several agency roles on behalf of the government. It acts as a banker to the government; represents it in all dealings, negotiations, and transactions with the IMF and the Bank of International Settlement; acts as a financial adviser to government; and is the official depository of the cash balances of all government agencies. For this reason, the BSP operates a general cash account for the Treasurer, in which the liquid funds of the government are deposited.<sup>16</sup>

BSP representatives sit on a range of government committees, including the Investment Coordinating Committee and the Committee on Tariffs and Related Matters. The Development Budget and Coordination Committee (DBCC), which includes the BSP and the chief fiscal agencies of the government, sets the desirable level of revenue expenditure and debt for the annual budget.<sup>17</sup>

In addition, under section 124 of the NCBA, the BSP is an ex-officio member of the National Economic and Development Authority (NEDA) Board.

## 2. OPEN PROCESS FOR FORMULATING AND REPORTING MONETARY POLICY DECISIONS

●●●● Compliance in progress

### The framework, instruments, and targets of monetary policy

#### Framework and monetary targets

The BSP shifted from monetary targeting to explicit inflation targeting as its policy-making framework in January 2002. The central bank has implemented adequate mechanisms to inform the public how the inflation-targeting regime works. In this context, the BSP uses the consumer price index (CPI) or headline inflation (published by the National Statistics Office) as its target for monetary policy. The policy target is expressed in the form of a range for a given year and is set by the national government in coordination with the central bank. The BSP regularly disseminates quarterly inflation reports, reports on monthly inflation, and the minutes of its Monetary Board meetings. In addition, the BSP has launched a consultation process to get regional feedback on its policy framework.<sup>18</sup>

#### Monetary instruments

The BSP uses short-term interest rates, specifically the overnight RREPO (Reverse Repurchase Rate) and the overnight REPO (Repurchase Rate), as the key policy rates in the BSP open market system to set the stance of monetary policy. Other instruments used include the special deposit accounts (SDA) facility, reserve requirements, and rediscounting transactions. Rules and procedures governing the central bank's relations with financial institutions for the purpose of monetary policy-making are publicly disclosed on the BSP's website and are addressed in the NCBA.<sup>19</sup>

### The monetary policy-making body

#### Monetary board

The Monetary Board is empowered to exercise the powers and functions of the BSP. It consists of seven members -- the governor of the BSP, a member of the cabinet, and five individuals from the private sector -- each one appointed by the president. Information on the composition, structure, and functions of this policy-making body is publicly disclosed on the BSP's website.<sup>20</sup>

The NCBA stipulates that the Monetary Board should meet at least once a week, and that the presence of four members constitutes a quorum, provided that the governor or a duly designated alternate is among the four. In case of emergencies where there is insufficient time to call a board meeting, the governor may, with the concurrence of two other members, take decisions.<sup>21</sup>

The NCBA establishes a clear framework of accountability for BSP officials. Members of the central bank's principal policy-making body, the Monetary Board, and other officials are liable for losses that the BSP or other banking institutions incur as a result of abuse of responsibilities, negligence or imprudence.

### **Advance meeting schedule**

The BSP publishes the schedule of Monetary Board meetings, the advisory committee meetings and the release of highlights from the Monetary Board meetings, all two years in advance. They are published on the BSP website and also in the BSP's quarterly inflation report.<sup>22</sup>

### **Public statements on monetary policy**

The BSP publishes 'highlights' that incorporate the main considerations underlying the BSP Monetary Board's policy decisions and a summary of the discussions of the Monetary Board meetings. Also included in the highlights are the board's assessment of the inflation outlook; macroeconomic conditions; the exchange rate; the world economic outlook; and production and consumption indicators. The BSP reports the voting of the Monetary Board, but not the individual votes of members. Differences in view are discussed in the highlights, but are not attributed to specific people.<sup>23</sup> The BSP is also required by the NCBA to report any new rules or regulations to the president and Congress. Moreover, the Monetary Board must submit comprehensive quarterly and annual reports, including an analysis of economic and financial developments (in the quarterly reports), and a review of the policies adopted and the reasons that prompted individual policies (in the annual reports).<sup>24</sup> In addition, a statement on the Monetary Board's decisions on monetary policy is released to the press and posted on the BSP website immediately after the Monetary Board meeting on the monetary policy stance. Meanwhile, the highlights of the meeting of the Monetary Board are published with a lag of six weeks.<sup>25</sup>

### **Periodic publications**

In addition to summary statements on Monetary Board decisions, the BSP publishes a variety of documents, reports, and press statements on a range of macroeconomic and financial issues. These include monthly issues of *Selected Philippine Economic Indicators*; the quarterly and annual *Report on Economic and Financial Developments*; a twice-yearly *Status Report on the Philippine Financial System*; quarterly balance of payments (BOP) reports; quarterly inflation reports (with an accompanying press conference); fact sheets on the exchange rate and the inflation-targeting framework; and a *Business Expectations Survey* and *Consumer Expectations Survey* (both published quarterly and posted on the BSP website). Selected speeches by the governor are also available on the BSP's website.<sup>26</sup>

The BSP publishes a detailed quarterly advance release calendar of key statistics, reports, and press releases on its website. The calendar contains information on the data provider, periodicity, availability, period coverage, and the contact details of institutions where further information can be obtained.<sup>27</sup>

### **Public hearings**

There is no legal requirement for public hearings on proposed changes to the monetary policy framework, but the BSP is committed to public consultation (as evidenced by the extensive consultations on the design of the inflation-targeting regime in 2001), including meetings with representatives from industry and labour organisations. In addition, the central bank has been conducting a series of public information campaigns as part of the authorities' effort to bring greater transparency to the making of monetary policy. A schedule of public briefings and information campaigns is available on the BSP website.



## Regulations on data reporting by financial institutions to the central bank

The BSP has tightened banking supervision in recent years, requiring more extensive reporting, in particular on banks' non-performing loans and transactions with directors, officers, stockholders and related interests. External auditors of commercial banks must report to the BSP on adverse developments and banks are required to raise their accounting practices to international standards. BSP regulators concede that the data they receive from local banks has scope for improvement; where the BSP has identified data of questionable quality, it has pursued improvements.<sup>28</sup>

While the BSP is mandated to examine every bank branch once every twelve months, it is unable to fulfil this requirement due to the large number of branches across the archipelago and the BSP's limited resources. Rural banks, which pose the greatest regulatory difficulty, only represent about two percent of the banking system in terms of assets. Nevertheless, problems in these areas suggest that the BSP's supervision of the local banking sector requires further strengthening. Some measures, including increased computerisation and consolidation, are being implemented. In 2005, the conduct of examinations of banks covered at least 70% of the banks' total resources and off-balance sheet accounts and 80% in the case of closely monitored banks.<sup>29</sup>

Progress is underway to compile monetary data following the guidelines of the new IMF Monetary and Financial Statistics Manual (MFSM) aimed at improving the coverage, sectorisation and valuation of financial instruments.<sup>30</sup> In response to recommendations from the IMF, expanded institutional coverage and the uniform conversion of foreign currency accounts began in March 2004 with the publication of the Depository Corporations Survey (DCS) covering all deposit-taking institutions. Initial periods covered were December 2001, December 2002, December 2003, and January to July 2004.<sup>31</sup> By end-2005, the monthly DCS series for 2003 will be completed. DCS data is released with a time lag of one month.

Another recommendation from the IMF was to establish routine updating of sectorisation of bank assets and liabilities in line with changes in the composition of the different levels of government.<sup>32</sup> Sectorisation requirements are expected to be addressed by the implementation of the Subsidiary Ledger (SL) Reporting System for commercial banks (parallel testing started in January 2004), thrift banks (parallel testing started in February 2004) and rural banks (started in April 2005). However, the submission and parallel testing of subsidiary ledgers by all banks under the SL Reporting System was temporarily suspended in June 2005, pending completion of the data warehouse project that will serve as clearing house for all data produced by the BSP. An inter-agency group consisting of representatives from the BSP, the National Statistical Coordination Board (NSCB), the DOF and the Commission of Audit (CoA) was organised in October 2003 to agree on a common, updated sectorisation of Government-Owned and/or Controlled Corporations (GOCCs). By November 2005, the proposed sectorisation was still not agreed. The activity was then subsumed by the Inter-Agency Task Force on Public Finance Statistics, which was created by the Department of Finance to facilitate the IMF recommendations on, for example, the migration plan to the Government Finance Statistics 2001 Manual.<sup>33</sup>

The Financial Action Task Force (FATF) announced on March 13, 2003 that it would not apply any counter-measures to the Philippines (as had previously been suggested on February 14, 2003), owing to the enactment of the Republic Act No. 9194, which amended the Anti-Money Laundering Act of 2001. According to the FATF, the new legislation has addressed the main legal deficiencies in the Philippine anti-money laundering regime previously identified. On 11 February 2005, the Philippines was removed by the FATF from the list of non-cooperative countries and territories (NCCT). In June 2005, the Philippine Anti-Money Laundering Council was admitted to the Egmont Group, a group of Financial Intelligence Units.

### 3. PUBLIC AVAILABILITY OF INFORMATION ON MONETARY POLICY

●●●● Compliance in progress

#### Release of central bank data

As a subscriber to the IMF Special Data Dissemination Standard (SDDS), the Philippines provide a range of macroeconomic, financial, and monetary statistics. Within this framework, the BSP is responsible for releasing financial data, such as the analytical accounts of the banking sector; the analytical accounts of the central bank; interest rates; the balance of payments; international reserves and foreign currency liquidity; the international investment position; external debt and exchange rates. The stock market share price index released by the Philippine Stock Exchange is re-disseminated by the BSP on its SDDS webpage.

Data meets the requirements of the SDDS for coverage, timeliness, and periodicity. The BSP makes use of the option to publish the Philippines' international investment position with a time lag of nine months while publishing external debt data on a quarterly basis. The analytical accounts of the banking sector cover data on monetary aggregates, net domestic credit to the public and private sectors, and net foreign assets. The analytical accounts of the central bank cover data on reserve money, net domestic claims on the public and private sectors, and net foreign assets. Both accounts are published on a monthly basis, with a time lag of four weeks for the former and two weeks for the latter. Data on interest rates cover daily BSP policy rates, weekly Treasury bill and bond rates, and monthly BSP rediscount rates.

Balance of payments statistics cover all accounts consistent with the IMF balance of payments manual 5th edition (BPM5). These statistics are produced and released monthly, but the report on the balance of payments figures is now made and released quarterly rather than monthly.<sup>34</sup> The government has attained considerable progress in regard to the weaknesses found previously by the IMF in the statistical reporting. Technical notes on the revisions to balance of payments data for 1999-2004 are available on the central bank's website.<sup>35</sup>

Data on international reserves and liquidity data is published on a monthly basis within a month from the end of the reference month. Exchange rate data is published daily and detail the spot exchange rate of the Philippine peso against the US dollar and other currencies. The composite stock market index is published on a daily basis.

On the first business day of the month, an advance release calendar, giving one-quarter notice of precise release dates, is posted on the websites of the BSP and the National Statistical Coordination Board.<sup>36</sup>

Commentators have said that they are satisfied with the quality, timeliness and coverage of the BSP's data and the general information and communication from the BSP.<sup>37</sup>

#### The central bank balance sheet

In addition to its monthly SDDS release, the BSP publishes summary analytical accounts on a weekly basis.<sup>38</sup> A more detailed balance sheet is produced quarterly, in the *Report on Economic and Financial Developments*, and annually, in the *Annual Report*.<sup>39</sup> An unaudited balance sheet is made available by the Financial Accounting Department five weeks after the reference month, which cuts the significant time lag from two or three quarters to one quarter -- although the audited version is also published later. Information on the BSP's monetary operations is

disclosed in the monthly *Selected Philippine Economic Indicators*, which includes a table on Reserve Money Movements.<sup>40</sup>

The IMF noted that there was a long delay in the transmission of BSP balance sheet to compilers.<sup>41</sup> Its recommendation was to provide compilers of monetary data with an unaudited BSP balance sheet within ten calendar days after the end of the reference month. However, data on BSP's externally managed funds are received by the BSP from custodians only ten days after the reference month, providing no time for further processing of the said data. Nevertheless, compilers are able to get advance data from departments and are able to meet the SDDS timeliness standard.<sup>42</sup> Since the point was raised by the IMF, the availability of the BSP balance sheet has improved significantly to four to five weeks after reference month.<sup>43</sup>

## **Lender of last resort**

The NCBA authorises the BSP to extend commercial credits, advances against specified collateral, special credits or loans for liquidity purposes, and emergency loans and advances (consistent with its function as lender of last resort). The NCBA sets out the framework through which such loans can be provided to institutions experiencing difficulties. In particular, Section 84 of the NCBA establishes that emergency loans require the support of five members of the Monetary Board, and should not exceed 50% of the total deposits and deposit substitutes of the receiving institution and must consist of two or more separate disbursements. Additional requirements and provisions on how the disbursements are allocated are also publicly available.<sup>44</sup> Meanwhile, the BSP also assists the Philippine Deposit Insurance Corporation (PDIC) in its function of rehabilitating banks by granting loans to PDIC at conventional rates.<sup>45</sup>

Nevertheless, there is usually little transparency on the condition of banks that receive emergency loans from the BSP for fear that publishing such information would cause further distress in the financial system. The BSP publishes aggregate figures in its *Annual Report*, but no official information is released by the central bank. Under SEC rules, all publicly listed corporations must publish statements of their financial conditions on a quarterly basis.<sup>46</sup> Although not all banks are publicly listed, the BSP requires banks to publish their statements on a quarterly basis.<sup>47</sup>

## **Public information services**

The BSP has established and maintains high quality public information services, particularly through its website. There are links to a comprehensive database of macroeconomic and financial statistics, reports, press releases, and speeches by the governor. New regulations are disseminated as appropriate on the BSP's website. The central bank has clearly placed special attention on the inflation-targeting framework and has maintained its public information campaign and briefings on inflation targeting.

#### 4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY BY THE CENTRAL BANK

●●●● Compliance in progress

##### Accountability to a designated public authority

The BSP is required to submit its written quarterly *Report on Economic and Financial Developments* and its *Annual Report* to the president and Congress.<sup>48</sup> Senior BSP officials brief Congress as necessary and when invited, although there is no explicit legal requirement in the NCBA for central bank officials to report before public authorities. The BSP governor meets the president frequently at scheduled cabinet meetings.

The BSP conducts regular information campaigns through, for example, publications on its website, to explain inflation and the framework currently adopted by the BSP. The BSP produces a quarterly inflation report which is posted on the website once the press conference on the report has been concluded.

##### Financial statement

###### Audited financial statements

The BSP publishes a monthly financial statement of consolidated revenues and expenses in its *Selected Philippine Economic Indicators* series, and a review of its financial condition in the quarterly *Report on Economic and Financial Developments*. The central bank must also attach an audited financial statement to its *Annual Report*.<sup>49</sup>

A number of initiatives were undertaken during 2005. The Task Force on Banking and Systems Risk was set up to review the practice of providing financial assistance to troubled banks and the PDIC in order to identify loopholes in BSP lending policy. The results of the review were considered by the Credit Policy Committee in its formulation of new guidelines for granting loans to banking institutions, including the PDIC. These guidelines will be submitted to the Monetary Board for approval. In addition, the Department of Loans and Credit (DLC) committed itself to improving its bookkeeping, monitoring and management of the PDIC loan accounts through closer coordination with the PDIC and the computerisation of loan data/information.

###### External and internal audit

The external audit of the BSP is undertaken by an auditor appointed by the chairman of the Commission on Audit (CoA), the supreme audit authority of the Philippines.<sup>50</sup> Under the Administrative Code of 1987 (Article IX-D), the CoA has independent powers to audit all government accounts. The CoA conducts a monthly audit (not real time), which is published in the press. Where the internal control system of the audited agencies is deemed inadequate, the CoA may impose measures -- such as temporary and pre-audits -- that are deemed necessary to remedy such deficiencies.<sup>51</sup> There has been no instance of an adverse finding by the CoA against the BSP. The BSP Internal Audit Office oversees and reviews the adequacy and efficiency of the BSP's internal control system.<sup>52</sup>

Data on BSP operations is compiled in accordance with CoA rules contained in the Government Accounting and Auditing Manual (GAAM, CoA Circular 91-368). Accounting procedures are prescribed in the Manual on the New Government Accounting System (CoA Circular 2002-002), which replaced the accounting practices established in

the GAAM Volume II. Further information on the methodology and sources used is available upon request from the contact person listed on the National Statistical Coordination Board's SDDS metadata website.<sup>53</sup>

There is a manual covering internal governance procedures necessary to ensure the integrity of operations, including internal audit arrangements, which can be made available upon request.<sup>54</sup>

## **Conduct of officials**

Standards for the conduct of personal financial affairs of BSP officials and staff are set out in the Code of Conduct and Ethical Standards for Public Officials and Employees (Republic Act No. 6713).<sup>55</sup> These provisions are explained further in the Employee Handbook (distributed internally). The NCBA also establishes rules for BSP employees over potential conflicts of interest.<sup>56</sup> However, in practice such conflicts have arisen in the past.

Past events concerning a potential suspension of Governor Rafael Buenaventura and four other top central bank officials, with regard to the closure of Urban Bank, highlighted the fact that BSP officials can be vulnerable throughout the political cycle. Governor Rafael Buenaventura has been cleared by the Supreme Court of the criminal case against him, and one of the administrative cases against him. The other administrative case has been cleared by the Court of Appeals, although it still has to be resolved in the Supreme Court.

Article 2, Section 15, Subsection (e) of the New Central Bank Act (R.A. 7653) mandates that the Monetary Board shall "indemnify its members and other officials of the Bangko Sentral, including personnel of the departments performing supervision and examination functions against all costs and expenses reasonably incurred by such persons in connection with any civil or criminal action, suit or proceedings to which he may be, or is, made a party by reason of the performance of his functions or duties, unless he is finally adjudged in such action or proceeding to be liable for negligence or misconduct." One of the proposed amendments to the NCBA adds formally the word "administrative" to the kind of actions, suits and proceedings BSP personnel can be indemnified for, although commentators stated that current proceedings include indemnification in administrative actions as well as civil and criminal actions. Proposed amendments to the NCBA also expand the coverage of the indemnification of legal costs and expenses to all personnel of the BSP and limit the exclusion for indemnification only in cases of gross negligence and misconduct.<sup>57</sup> The BSP maintained that it was not able to introduce the said amendments to the Senate yet.

Another of the proposed amendments intended to strengthen legal protection seeks to modify the degree of diligence required from BSP personnel under Section 16. The amendment seeks to impose on BSP personnel the same degree of diligence required from other government functionaries in the exercise or discharge of their duty and to remove the previous requirement for the exercise of extra-ordinary diligence.<sup>58</sup>

Finally, aside from the legal initiatives taken to strengthen legal protection, the BSP has recently availed itself of liability insurance from the Government Service Insurance System. The liability insurance of 500 million pesos, approved by the Monetary Board, answers for the legal costs and damages arising from suits, whether civil, administrative or criminal, and initially covers members of the Monetary Board and directors of departments determined to be the most likely subjects of suits. The BSP intends to expand the coverage of the liability insurance to include other BSP personnel and to increase the insurance amount to adequately meet the expansion of the coverage.<sup>59</sup> There are only two exclusions from the coverage: claims arising from fraud or dishonesty.

## INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to the Philippines between 3 and 11 November 2005

### Bangko Sentral ng Pilipinas

#### 8 November 2005

|                     |  |                                 |
|---------------------|--|---------------------------------|
| Carmen V. Hemedes   | Acting Deputy Director                       | Department of Economic Research |
| Illuminada T. Sicat | Officer-in-Charge                            |                                 |
| Diwa C. Guinigundo  | Deputy Governor                              |                                 |
| Juan De Zuniga Jr   | Assistant Governor                           |                                 |
| Renato G. Pizarro   | Executive Director Investor Relations Office |                                 |

### Department of Finance (DoF); Securities and Exchange Commission

#### 9 November 2005

|                             |                            |  |
|-----------------------------|----------------------------|--|
| Napoleon B. Micu            | Chief                      | Fiscal Policy and Planning Office, DoF   |
| Emmanuel Bonoan             | Undersecretary             | DoF                                      |
| Visitacion A. Ugalino       | Planning Officer           | DoF                                      |
| Ma.Teresa S. Habitan        | Director IV                | DoF                                      |
| Stela B. Montejo            | Chief                      | Fiscal Policy Division                   |
| Rowena S.Sta Clara          | Chief, Statistics Division | DoF                                      |
| Job Adrian M. Ambrosio      | Consultant                 | PJS Law                                  |
| Hubert B. Guevara           | Director                   | Securities and Exchange Commission (SEC) |
| Francisco Ed. Lim           | President & CEO            | Philippine Stock Exchange (PSE)          |
| Justina Fernandez-Callangan | Director                   | Securities and Exchange Commission (SEC) |

### Department of Budget and Management;

#### 8 November 2005

|                      |  |     |
|----------------------|--|-----|
| Estrella D. Manglo   | Chief Budget and Management Specialist       | DBM |
| Evelyn E. Managuelod | Supervising Budget and Management Specialist | DBM |

## ADDITIONAL INTERVIEWS

### 3 November 2005

|                       |                    |                                   |
|-----------------------|--------------------|-----------------------------------|
| Rodolfo V. Vicerra    | Director           | Congressional Planning and Budget |
| Romulo E.M. Miral Jr. | Executive Director | Congressional Planning and Budget |

### 7 November 2005

|                      |                        |                           |
|----------------------|------------------------|---------------------------|
| Guillermo N. Carague | Chairman               | Commission on Audit (CoA) |
| Emmanuel M. Dalman   | Commissioner           | Commission on Audit (CoA) |
| Carmela S. Perez     | Assistant Commissioner | Commission on Audit (CoA) |

### 9 November 2005

|                 |                     |                         |
|-----------------|---------------------|-------------------------|
| Ador G. Paulino | Director            | Office of the Ombudsman |
| Cyril E. Ramos  | Assistant Ombudsman | Office of the Ombudsman |

### 10 November 2005

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| Joseph Yap    | President                | Philippine Institute for Development Studies |
| Rene G. Banez | Chief Governance Officer | Philippines Long Distance Telephone Company  |

### 11 November 2005

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| Guillermo M. Luz | Executive Director | Makati Business Club |
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## NOTES

- <sup>1</sup> New Central Bank Act, Republic Act 7653 (1993), Chapter I, Article I (objectives and responsibilities); Chapter IV, Article II, Sec. 74 (exchange rate): [www.bsp.gov.ph/about\\_bsp/ncba/ncba\\_index.htm](http://www.bsp.gov.ph/about_bsp/ncba/ncba_index.htm)
- <sup>2</sup> Reuters Business Briefing, *Ramos signs law for new Philippine central bank*, 14/06/93, [www.reuters.com](http://www.reuters.com)
- <sup>3</sup> New Central Bank Act, Chapter I, Article I.
- <sup>4</sup> Interviews in the Philippines, 11-15 October 2004.
- <sup>5</sup> Interviews in the Philippines, 3-11 November 2005
- <sup>6</sup> Interviews in the Philippines, 3-11 November 2005
- <sup>7</sup> Interviews in the Philippines, 14-16 October 2002.
- <sup>8</sup> New Central Bank Act, Chapter I, Article II, Section 10.
- <sup>9</sup> Interviews in the Philippines, 11-12 December 2003.
- <sup>10</sup> New Central Bank Act, Chapter IV, Article V, Sections 91, 92.
- <sup>11</sup> Interviews in the Philippines, 3-11 November 2005
- <sup>12</sup> [www.bsp.gov.ph/Statistics/ifs/IFS-10G.htm](http://www.bsp.gov.ph/Statistics/ifs/IFS-10G.htm); The New Central Bank Act (1993), Chapter I, Article V, Section 39
- <sup>13</sup> New Central Bank Act, Chapter VI, Article II, Section 128
- <sup>14</sup> New Central Bank Act, Chapter I, Article II, Section 9; Article IV, Section 27
- <sup>15</sup> Interviews in the Philippines, 3-11 November 2005
- <sup>16</sup> New Central Bank Act, Chapter V, Articles I and III
- <sup>17</sup> Administrative Code (1987), Book VI, Chapter 3, Section 13  
[www.chanrobles.com/administrativecodeofthephilippines6.htm](http://www.chanrobles.com/administrativecodeofthephilippines6.htm)
- <sup>18</sup> [www.bsp.gov.ph/resources/other\\_docs/inflation\\_targeting.htm](http://www.bsp.gov.ph/resources/other_docs/inflation_targeting.htm)
- <sup>19</sup> New Central Bank Act, Chapter IV
- <sup>20</sup> [www.bsp.gov.ph/about\\_bsp/about\\_monet.htm](http://www.bsp.gov.ph/about_bsp/about_monet.htm)
- <sup>21</sup> New Central Bank Act, Article II and III, Section 19.
- <sup>22</sup> Interviews in the Philippines, 11-15 October 2004.
- <sup>23</sup> Interviews in the Philippines, 11-12 December 2003, and 11-15 October, 2004.
- <sup>24</sup> New Central Bank Act, Chapter I, Article II, Section 15; Article V (publications).
- <sup>25</sup> Interviews in the Philippines, 3-11 November 2005
- <sup>26</sup> [www.bsp.gov.ph/resources/resources.htm](http://www.bsp.gov.ph/resources/resources.htm); [www.bsp.gov.ph/Statistics/stats\\_SEFI.htm](http://www.bsp.gov.ph/Statistics/stats_SEFI.htm)
- <sup>27</sup> [www.bsp.gov.ph/resources/calendar/release\\_calendar.htm](http://www.bsp.gov.ph/resources/calendar/release_calendar.htm)
- <sup>28</sup> Interviews in the Philippines, 11-12 December 2003.
- <sup>29</sup> Interviews in the Philippines, 3-11 November 2005
- <sup>30</sup> IMF, Philippines: Report on the Observance of Standards and Codes - Data Module, Response by the Authorities, and Detailed Assessments Using Data Quality Assessment Framework, August 25, 2004.
- <sup>31</sup> Interviews in the Philippines, 11-15 October 2004.
- <sup>32</sup> IMF, Philippines: Report on the Observance of Standards and Codes - Data Module, Response by the Authorities, and Detailed Assessments Using Data Quality Assessment Framework, August 25, 2004.
- <sup>33</sup> Interviews in the Philippines, 3-11 November 2005
- <sup>34</sup> Interviews in the Philippines, 11-12 December 2003.
- <sup>35</sup> [www.bsp.gov.ph/Statistics/stats\\_conceptsbo.htm](http://www.bsp.gov.ph/Statistics/stats_conceptsbo.htm)
- <sup>36</sup> [www.bsp.gov.ph/resources/calendar/release\\_calendar.htm](http://www.bsp.gov.ph/resources/calendar/release_calendar.htm); [www.nscb.gov.ph/sdds/calendar.htm](http://www.nscb.gov.ph/sdds/calendar.htm)
- <sup>37</sup> Interviews in the Philippines, 11-15 October 2004.
- <sup>38</sup> [www.bsp.gov.ph/Statistics/sdds/SDDS.htm](http://www.bsp.gov.ph/Statistics/sdds/SDDS.htm); [www.bsp.gov.ph/Statistics/sefi/wmoney.htm](http://www.bsp.gov.ph/Statistics/sefi/wmoney.htm)
- <sup>39</sup> [www.bsp.gov.ph/Resources/special\\_publications/default.htm](http://www.bsp.gov.ph/Resources/special_publications/default.htm)
- <sup>40</sup> [www.bsp.gov.ph/Statistics/stats\\_SPEI.htm](http://www.bsp.gov.ph/Statistics/stats_SPEI.htm)
- <sup>41</sup> IMF, Philippines: Report on the Observance of Standards and Codes - Data Module, Response by the Authorities, and Detailed Assessments Using Data Quality Assessment Framework, August 25, 2004.
- <sup>42</sup> Interviews in the Philippines, 11-15 October 2004.
- <sup>43</sup> Interviews in the Philippines, 3-11 November 2005
- <sup>44</sup> New Central Bank Act, Chapter IV, Article IV.
- <sup>45</sup> Interviews in the Philippines, 3-11 November 2005
- <sup>46</sup> Interviews in the Philippines, 14-16 October 2002 and 11-12 December 2003.
- <sup>47</sup> Interviews in the Philippines, 3-11 November 2005
- <sup>48</sup> New Central Bank Act, Chapter I, Article V.



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<sup>49</sup> New Central Bank Act, Chapter I, Article V, Sections 40 and 41.

<sup>50</sup> New Central Bank Act, Chapter I, Article VII.

<sup>51</sup> Administrative Code, Book V, Subtitle B, Chapter 4, Section 11.

<sup>52</sup> Interviews in the Philippines, 11-12 December 2003, and 11-15 October 2004.

<sup>53</sup> [www.nscb.gov.ph/sdds/meta\\_fin\\_cenbank.asp](http://www.nscb.gov.ph/sdds/meta_fin_cenbank.asp)

<sup>54</sup> Interviews in the Philippines, 11-15 October 2004.

<sup>55</sup> Code of Conduct and Ethical Standards for Public Officials and Employees, Republic Act No. 6713 (1989); Anti-Graft and Corrupt Practices Act, Republic Act No. 3019 (1960), <http://philippineonation2.tripod.com/>

<sup>56</sup> New Central Bank Act, Chapter I, Article II, Section 9, 14; Article IV, Section 27.

<sup>57</sup> Interviews in the Philippines, 11-15 October 2004.

<sup>58</sup> Interviews in the Philippines, 11-15 October 2004.

<sup>59</sup> Interviews in the Philippines, 11-15 October 2004.